

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SAM-01 SP-02 USIA-06 AID-05 EB-07

NSC-05 CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01

CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03

LAB-04 SIL-01 L-03 H-02 PA-01 PRS-01 /088 W

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FM AMEMBASSY LISBON

TO SECSTATE WASHDC 6595

INFO USMISSION EC BRUSSELS

USMISSION OECD PARIS

C O N F I D E N T I A L LISBON 2123

E.O. 11652: GDS

TAGS: EFIN, PO

SUBJ: MOVEMENT IN ESCUDO QUOTATION

1. BANK OF PORTUGAL (BP) HAS RECENTLY PERMITTED ESCUDO TO DEPRECIATE RELATIVE TO MAJOR WORLD TRADING CURRENCIES. BETWEEN END OF DECEMBER AND END OF MARCH, ESCUDO DEPRECIATION APPROXIMATED SEVEN PERCENT VIS-A-VIS THE DOLLAR AND TWO PERCENT VIS-A-VIS POUND STERLING. BP APPARENTLY NOT USING RIGID FORMULA TO SET RATE OF DEPRECIATION, BUT SEEKS PRINCIPALLY TO MAINTAIN APPROXIMATE ESCUDO PARITY WITH CURRENCIES OF PORTUGAL'S MAJOR MARKET COUNTRIES. IT TENDS, THEREFORE, TO FOLLOW FAIRLY CLOSELY MOVEMENT OF POUND STERLING BECAUSE GREAT BRITAIN REPRESENTS PORTUGAL'S LEADING MARKET. IT DOES, HOWEVER, CONSIDER QUOTATION MOVEMENTS FOR CURRENCIES OF PORTUGAL'S MAJOR TRADING COMPETITORS, E.G., ITALY AND SPAIN.

2. RECENT DEPRECIATION OF ESCUDO HAS, ON BALANCE, LARGELY MAINTAINED RELATIVE INTERNATIONAL COMPETITIVE POSITION OF PORTUGAL AS OF LATE 1975. IT HAS DONE VIRTUALLY NOTHING TO IMPROVE NATION'S BASIC EXTERNAL DISEQUILIBRIUM. GOP
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UNDOUBTEDLY DESIRES TO AVOID RESOLVING THIS PROBLEM THROUGH

A SHARP DEVALUATION FOR ANOTHER THREE MONTHS. WE EXPECT,
HOWEVER, THAT SHORTLY AFTER FORTHCOMING ELECTIONS GOP WILL
DEVALUE ESCUDO SIGNIFICANTLY AND, SUBSEQUENTLY, PERMIT A
GRADUAL CRAWL.
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